Central & Eastern Europe
Commercial Update

A publication of the U.S. Department of Commerce, International Trade Administration, Central and Eastern Europe Business Information Center (CEEBIC), in cooperation with the U.S. Agency for International Development

October 2003

EU Structural and Cohesion Funds

Inside this Issue

Calendar of Events

October

10/15–10/17

Ex-Im Bank Southeast and Central Europe Regional Finance Conference

Bled, Slovenia

10/20–10/27

IT Trade Mission to Lithuania

Vilnius, Lithuania

10/27–10/29

Romanian International Infrastructure and Energy Forum

Bucharest, Romania

November

11/01

A Baltic Celebration

Washington, D.C.

11/01–11/02

Tenth Annual CIS and Eastern Europe Business Forum

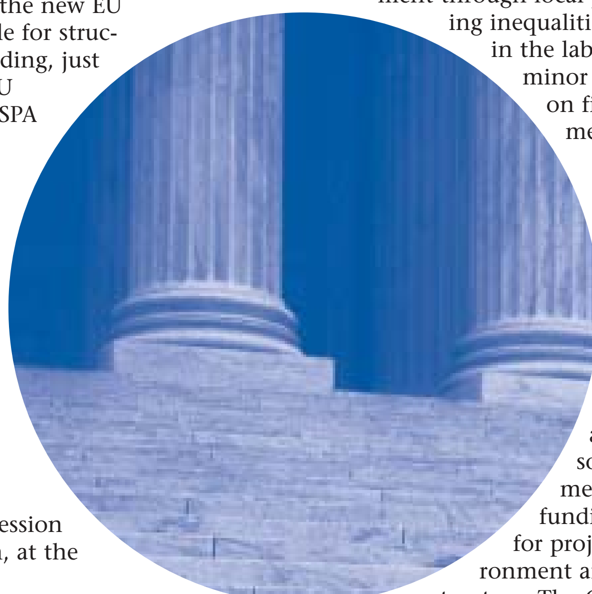
Tucson, Ariz.

Event details and contact information on page 5

The European Union offers its members and accession candidates various funding to assist economic and social development. EU funding is intended to complement nationally funded projects. Below is an overview of so-called structural and cohesion funding as well as the changes in financial assistance options when the 10 current candidate countries join the European Union in May 2004.

Structural Funds

In the run-up to EU accession, the candidate countries (the Czech Republic, Hungary, Poland, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Cyprus, and Malta) have been receiving aid from the European Union through various funding mechanisms (Phare, ISPA, and SAPARD). However, upon accession, this funding will no longer be available, because such funding is pre-accession aid. Instead, the new EU members will be eligible for structural and cohesion funding, just as are the 15 current EU countries. Unfulfilled ISPA projects will be transferred to the Cohesion Fund credit line. This funding will be available to the candidate countries as of May 1, 2004, even though structural funding payments will be accessible on Jan. 1, 2004. (Bulgaria and Romania will continue to benefit from ISPA, SAPARD, and Phare funding until their accession to the European Union, at the earliest in 2007.)



Structural funds aim to enhance economic and social cohesion and to improve structural imbalances across the European Union. They support projects that create investments and jobs, improve infrastructure, and enhance economic and social development. Structural funding is the European Union's most significant funding mechanism, accounting for around a third of the total EU budget. The structural funds fall into four groupings: the European Regional Development Fund, the European Social Fund, the Financial Instrument for Fisheries Guidance, and the European Agriculture Guidance and Guarantee Fund. Together, these funds help to develop infrastructure, such as transportation and energy; extend telecommunications services; support firms and provide training to workers; and expand the information society. Implementation is largely the responsibility of national and regional authorities.

Almost 6 percent of the structural fund budget is spent on four "community initiatives," including cross-border, transnational, and interregional cooperation; sustainable development of cities and declining urban areas; rural development through local programs; and combating inequalities and discrimination in the labor market. Other very minor percentages are spent on fisheries and development.

Almost 7 billion euros are planned for the new member states under the structural-funds payment outline.

Cohesion Fund

The Cohesion Fund promotes economic and social cohesion and solidarity among EU member states. Cohesion funding is used exclusively for projects regarding the environment and transportation infrastructure. The Cohesion Fund is restricted to member states whose per capita GDP is less than 90 percent of the EU average. Currently, these countries are Greece, Ireland, Portugal, and Spain. These resources amount to about 2.5 billion euros annually from 2000 to 2006.

The Cohesion Fund will receive a budget allocation of 18 billion euros for the 2000–2006 period. Over the same period, a total of 213 billion euros of structural and cohesion funding will be available.

Enlargement

All accession countries are currently negotiating with the European Commission on priority programs to be developed over the upcoming

(Continued on page 6—Structural)

Eye on Southeast Europe

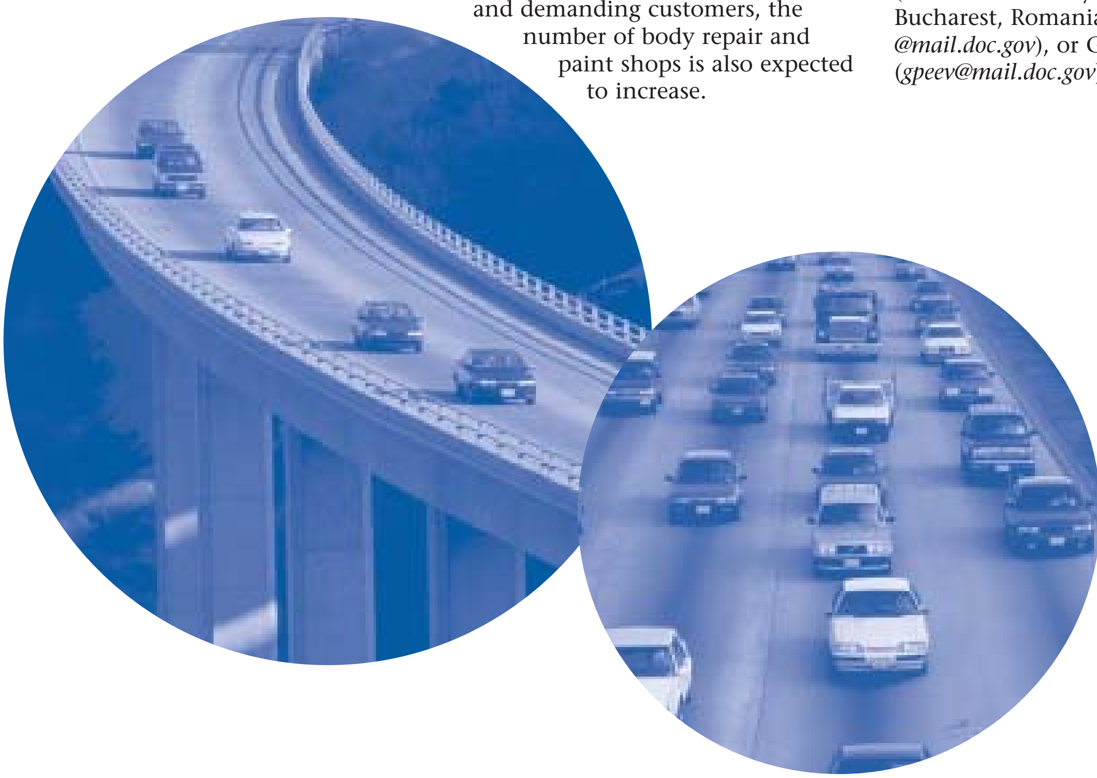
The Automotive Sector in Bulgaria and Romania

Little to no automotive production takes place in Romania and Bulgaria. Auto parts and service suppliers from the United States have therefore made few marketing efforts in these countries, although their prospects may be improving. Typically, automotive parts and service suppliers tend to follow vehicle manufacturers into markets. If manufacturers begin producing vehicles somewhere, this creates opportunities for parts and service suppliers to provide original equipment (used in vehicle production), replacement equipment (aftermarket parts for repair or replacement of worn parts), and specialty equipment (aftermarket parts to modify produced vehicles).

Bulgaria

New vehicle registrations in Bulgaria rose 3.8 percent in 2001 over the previous year. U.S. exports to Bulgaria are showing slight signs of growth. Bulgaria imported $1.7 million worth of U.S. automotive parts in 2002.

In 2001, the average age of the 2.2 million passenger cars in Bulgaria was approximately 19 years. Therefore, automotive repair/service is one of the fastest-growing business sectors in Bulgaria. The total market for automotive repair, tools, and service equipment for 2001 was estimated at $19.9 million. Imports almost completely supplied this market, in which the United States only had a 3-percent share. Due to the growth in the number of European cars and demanding customers, the number of body repair and paint shops is also expected to increase.



Romania

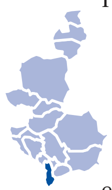
Romania's economic recovery in 2001 had a positive impact on its domestic automotive industry, which sold 9 percent more passenger cars than in the previous year (or 72,100 total). However, production of passenger cars and commercial vehicles declined slightly. U.S. exports to Romania are increasing. Romania imported a total of $25.7 million worth of automotive parts in 2002. Romania exported $4.6 million worth of automotive parts to the United States in 2002. Early indicators suggest that Romania may export substantially more automotive parts in 2003.

The Romanian car-parts industry has experienced rapid expansion over the last two years as several large foreign parts producers established production plants in the country. The automotive industry in Romania currently has two large foreign vehicle makers: Daewoo and Renault. Numerous parts-production plants have opened in recent years to support this foreign car production. However, Daewoo is heavily in debt, and Romanian officials are trying to interest foreign automotive companies in acquiring Daewoo Automobile Romania SA. Several European automotive companies have invested in Romania in recent years.

For more information, contact Jennifer Gothard, Washington, D.C. (*jennifer_gothard@ita.doc.gov*), Robert Balazs, Cluj, Romania (*Robert@USEmbassy.dntcj.ro*), Monica Eremia, Bucharest, Romania (*monica.eremia@mail.doc.gov*), or Georgi Peev, Sofia, Bulgaria (*gpeev@mail.doc.gov*).

Around the Region

Albania: Labeling Requirements for Imported Food



The Albanian government's policy requiring all labels for imported food products to be printed in the Albanian language entered into force on July 2, 2003. Each label must contain a general description of the product, including the dates of production and expiration. The Albanian Ministry of Agriculture and Food stated that all imported products lacking the appropriate labels in Albanian would not be sold and would be confiscated. Source: *Gazeta Shqiptare*.

Slovakia: Cabinet Approves Tax Reform

Lawmakers have already approved a single 19-percent value-added tax that would replace the 14 to 20 percent value-added tax currently in existence. A 19-percent flat income and corporate tax will be introduced on Jan. 1, 2004, if the parliament passes the tax reform bill. Source: RFE/RL.

Bosnia and Herzegovina: Customs Authorities Merging

On June 30, 2003, the parliament in Bosnia and Herzegovina adopted legislation to merge various customs authorities. The new law provides for three months' transition to a new unified customs regime at the federal and republic levels. Source: *Southeastern European Times*.

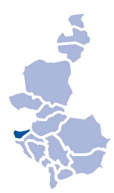
Poland: Growth in the Number of New Private Firms

The number of registered businesses in Poland increased 1.4 percent, to 3.51 million, in the first half of 2003. While Gdansk, Katowice, and Wroclaw have demonstrated the largest increases, this trend is expected to spread to smaller cities. The most common new businesses established include hotels, restaurants, and transportation firms. A continued increase in the establishment of hotels is expected as the demand for budget hotels continues to rise; 6,000 hotels have been registered in 2003. Deregulation of obligatory licenses for transportation companies with trucks less than 3.5 metric tons has encouraged the growth of such firms. Source: *Polish News Bulletin*.

FYR Macedonia: New Foreign Investment Agency

On July 7, 2003, the Macedonian government adopted new legislation put forward by the Ministry of Economic Affairs. The legislation included a proposal for the creation of a foreign investment agency, which would encourage foreign investment into FYR Macedonia and provide for the equal treatment of domestic and foreign investors. Source: Macedonian Information Agency.

Slovenia: New Hydroelectric Power Plants



Construction of the first dam on the lower Sava River began in July. This dam is the first of five new hydroelectric power plants to be constructed along the river at Bostanj, Blanca, Krsko, Brezice, and Mokrice. Construction of the five power plants will take about 15 years to complete, with three years allotted for the construction of each plant. This project, with an estimated cost of $459 million, is the largest investment in Slovenia's history. Source: *Slovenia Business Week*.

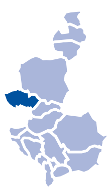
Central and Eastern European Commercial Opportunities

Slovenia: Educational Videotape Producer Seeks U.S. Partner

Videofon, a private company established in 1991, is the only firm in Slovenia that produces videotapes for high schools, elementary schools, and kindergartens. In cooperation with the Slovene Ministry of Education, Videofon has produced more than 120 educational programs. Videofon buys copyrights from major international producers and modifies them for local needs. Half of the company's programs are developed internally with local experts. Videofon would like to find a U.S. partner for Southeast Europe.

Contact:
Sebastjan Fon
Videofon d.o.o.
Blejska dobrava 139
Bled 4273
Slovenia
Tel: +386-4-581-40-10
Fax: +386-4-581-40-17
E-mail: *sebastjan@videofon.si*

Czech Republic: AC and Irrigation Technologies Sought

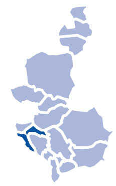


The summer of 2003 was one of the hottest in the last 150 years in Europe. During this time, the Czech Republic also experienced a severe drought, particularly in July and August. This critical situation has led to a shortage of drinking water in parts of the country.

The heat has also taken a heavy toll both on agriculture and general public health. As a result, demand for irrigation technologies and air-conditioning products has considerably increased.

Contact:
Veronika Lukesova
U.S. Commercial Service
U.S. Embassy
Trziste 15
118 01 Prague 1
Czech Republic
Tel: +420-2-5753-1162, ext. 2437
Fax: +420-2-5753-1165
E-mail: *veronika.lukesova@mail.doc.gov*

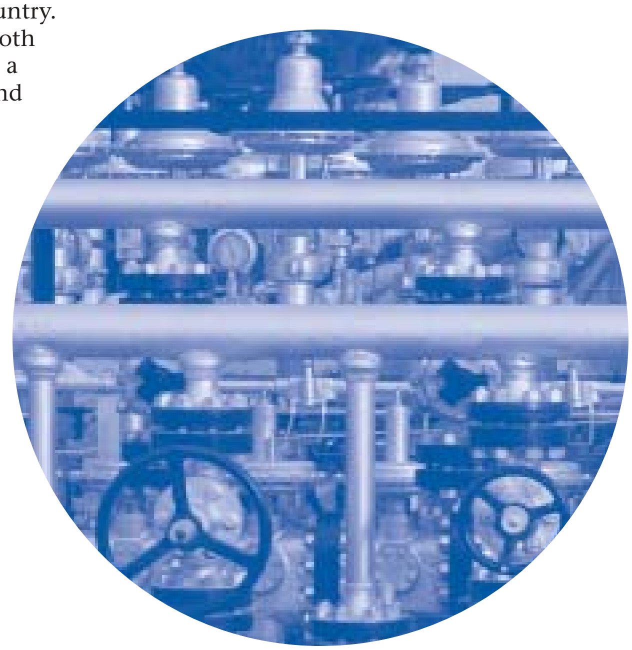
Croatia: Water/Wastewater Equipment Distribution



RPI is a privately owned environmental company in Rijeka, Croatia. Established in 1994, RPI has annual revenue of $250,000–$500,000. Its primary activities relate to design, surveillance, consulting, and engineering of environmental projects. RPI also imports environmental technologies that it installs throughout Croatia and in parts of Slovenia and Italy. RPI specializes in drinking and wastewater treatment systems. So far the company has worked only with German and Italian producers.

RPI is interested in a distribution partnership with U.S. producers of electromagnetic flow meters and pumps. RPI would like to represent a manufacturer's equipment in the region and apply it to the treatment systems the company designs. Pumps should be applicable to drinking water and wastewater, with capacity and quality to compete with Western European technology. This commercial opportunity should be viewed in the context of expectations of major investment in the wastewater treatment industry in Croatia.

Contact:
Mirjana Matesic
Tel: +385-1-661-2149
Fax: +385-1-661-2446
E-mail: *mirjana.matesic@mail.doc.gov*



Upcoming Events

October

10/15–10/17
Ex-Im Bank Southeast and Central Europe Regional Finance Conference

Bled, Slovenia

Further information:
Efe Cummings
Tel: (202) 565-3556
E-mail: *efe.cummings@exim.gov*

10/20–10/27
IT Trade Mission to Lithuania

Vilnius, Lithuania

Further information:
Ingrida Bublys
Tel: (216) 486-8692
E-mail: *oilgas@ite-exhibitions.com*

10/27–10/29
Romanian International Infrastructure and Energy Forum

Bucharest, Romania

Further information:
Tel: +44-20-7596-5000
E-mail: *oilgas@ite-exhibitions.com*

November

11/01
A Baltic Celebration

U.S. Baltic Foundation
Silent Auction and Awards Gala

Washington, D.C.

Further information:
Jeff Nelson
Tel: (202) 393-3338
E-mail: *gala@usbaltic.org*

11/01–11/02
Tenth Annual CIS and Eastern Europe Business Forum

Tucson, Ariz.

Further information:
Roza Simkhovich
Tel: (520) 621-7341
E-mail: *roza@dakotacom.net*

December

12/03–12/04

CEE Regulatory Challenges in the Pharmaceutical Market

London, United Kingdom

Further information:
Laura Beachus
Tel: +44-20-7017-5507
Fax: +44-20-7017-4749
E-mail: *cust.serv@informa.com*

For a more complete list of events, go to CEEBICnet: *www.export.gov/ceebic*.
This notice is provided solely as an informational resource and does not constitute U.S. Department of Commerce endorsement of these events. All information published in the *Commercial Update* regarding trade events is subject to change without notice by the organizers of those events.

Structural—*from page 1*

years. While Poland and the Czech Republic have already held negotiations on structural and cohesion funding, Hungary and Slovenia began their talks at the end of July. Slovenia, entitled to approximately 267 million euros of structural funds and 190 million euros under the Cohesion Fund, wishes to concentrate on manufacturing, competitiveness, and human-resource development. Hungary, meanwhile, plans to focus on business infrastructure, human-resources development, transportation and environmental infrastructure, and agriculture and rural development. As the second-largest recipient of funding after Poland, Hungary is entitled to 2 billion euros in structural funds and 1.12 billion euros under the Cohesion Fund.

Obstacles

What needs to be noted, however, is that EU structural and cohesion funding is only meant to supplement or co-finance member-state financing for projects. Thus, the main problem that arises is that accession countries are sometimes reluctant to supplement EU-funded projects with their own national funding. The identification of the various aid programs and the large infrastructure to be upgraded are decided jointly by the European Commission and the recipient countries.

U.S. companies stand to benefit from Central and Eastern European countries' receiving EU funds, because tenders for EU-funded projects under structural and cohesion funding do not have a nationality requirement and may extend to U.S. involvement.

EU Accession Extras

Euro Exchange Rates

Euro exchange rates in EU accession candidate countries have fluctuated widely since the euro was introduced on Jan. 1, 1999. Lithuania's litas has fared the best, rising 35 percent. The litas was pegged to the U.S. dollar from 1994 to 2002. Since February 2002, the litas has been pegged to the euro (at a fixed rate of 3.4582 litas per euro).

The Czech koruna has risen 11 percent since 1999, based on a managed floating exchange-rate system. The koruna-to-euro ratio remained around 31.5 to one during the first six months of 2003.

The only other accession country to record a currency rate increase is Slovakia. The Slovak koruna has risen 4 percent, also under a managed floating regime.

The Bulgarian lev and the Estonian kroon, in contrast, have remained in line with the euro since its introduction in 1999. These currencies are tied to the euro under currency-board regimes (1.9558 levs and 15.6466 kroons per euro).

After great fluctuations, the Latvian lat is now at the same euro rate it was in early 1999. In 2002, the lat fell 9.4 percent against the euro, and it dropped 5.4 percent in the first six months of 2003.

Hungary, Poland, and Slovenia have all seen their euro exchange rates drop since 1999 (5, 9, and 19 percent, respectively). Meanwhile, Romania has recorded a dramatic 66 percent drop in the leu's value relative to the euro. Source: *Enlargement Weekly*.

Central & Eastern Europe
Commercial Update

CEEBIC
Central & Eastern Europe
Business Information Center

Central and Eastern Europe Commercial Update is produced by the Central and Eastern Europe Business Information Center (CEEBIC). For more information or to subscribe, contact CEEBIC by phone at (202) 482-2645, fax (202) 482-3898, or e-mail *ceebic@ita.doc.gov*.

Director: Jay Burgess
Associate Director: Jennifer Gothard
Editorial Team: Leah Markowitz
International Trade Specialists: Leah Markowitz, Sean Timmins
Program Assistant: Katherine Huybrecht
Webmaster: Gedlom Tesfazion
Contributors: Jonathan Kimball, Michael Rogers, Silvia Savich, Melissa Wilson

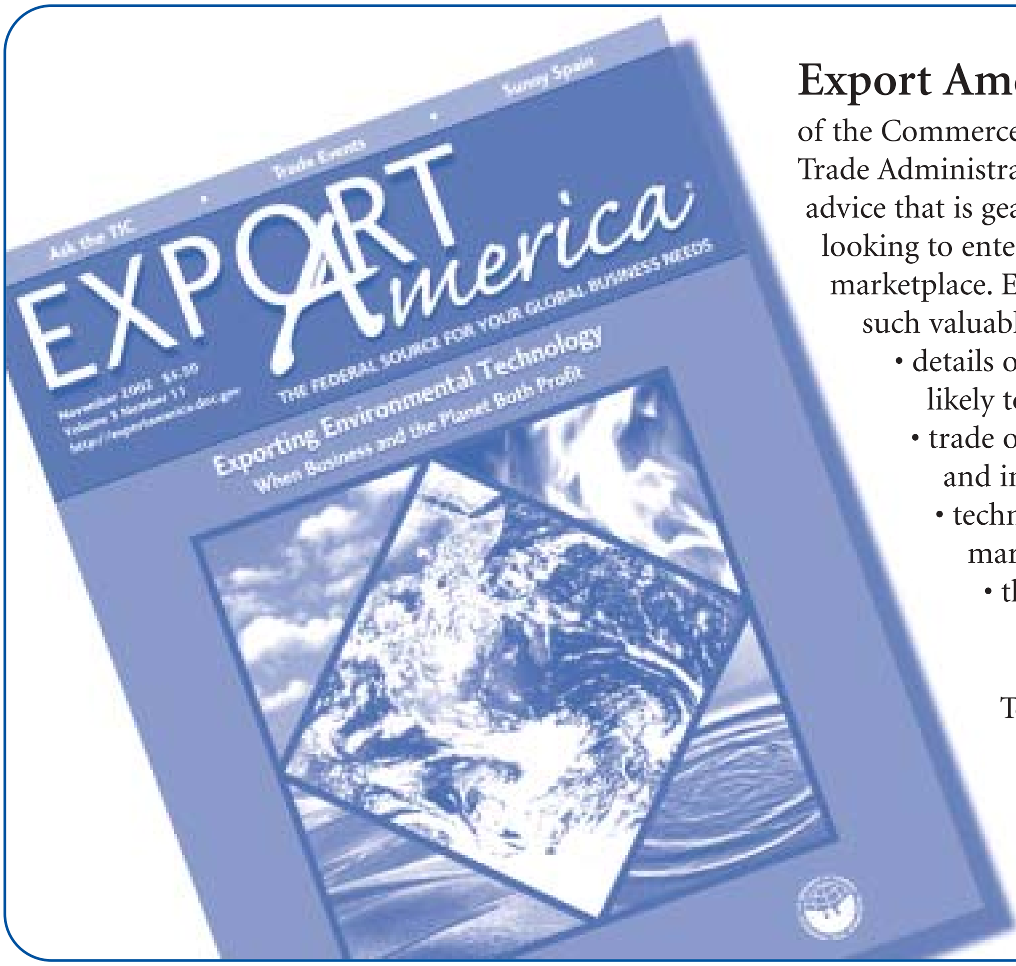
CEEBIC
Central & Eastern Europe
Business Information Center

USA Trade Center
U.S. Department of Commerce
Stop R-CEEBIC
Washington, DC 20230

PRESORTED
First-Class Mail
Postage & Fees Paid
ITA/DOC
Permit No. G-54

OFFICIAL BUSINESS
Penalty for Private Use: $300

Check us out at CEEBICnet:
www.export.gov/ceebic



Export America, the official magazine of the Commerce Department's International Trade Administration, offers practical export advice that is geared to the needs of exporters looking to enter or expand in the global marketplace. Each monthly issue features such valuable information as:

- details on regional developments likely to affect exporters;
- trade opportunities, by country and industry;
- technical advice and on-line marketing tips;
- the latest official export statistics.

To subscribe to ***Export America,*** call (202) 512-1800 or visit *http://exportamerica.doc.gov.*